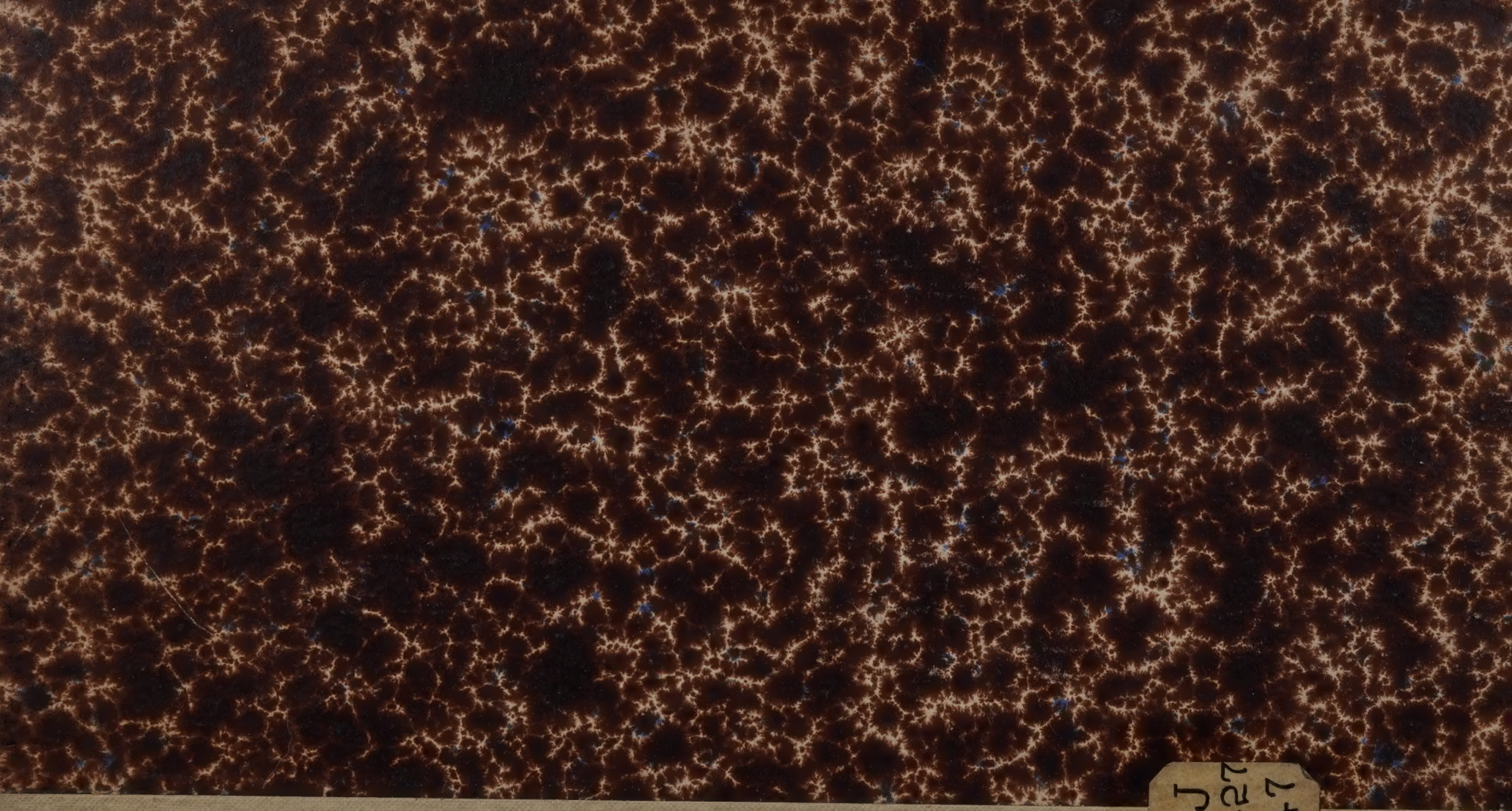

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Thompson. Study of our taxes.

January 1900

A STUDY OF OUR TAXES.

BY PRESIDENT W. O. THOMPSON,

Ohio State University, Columbus, O.

It is a matter of great satisfaction to the people of our commonwealth to know that during the past decade we have made considerable progress in the matter of adjusting the burdens of taxation. The revenues of the state have increased considerably without putting increased burdens upon the people. There is no prospect that the levy for state purposes will be increased. Indeed, a careful management of the state's revenues with the probable increase that will come from new sources ought to make it possible to reduce the levy for state purposes.

The purpose of this paper is to set forth in a direct and clear way just what our revenues are and, in a general way, what becomes of them. I shall then attempt to suggest a few points where some improvements could be made with the interests of every one properly cared for.

There is no department of public interest concerning which more unreasonable and hasty statements are made than concerning the whole subject of taxation. People have inherited a notion that taxation is a very heavy burden and unfortunately they have not always investigated enough to know where the burden lies or why it is there. As a matter of fact the state tax of Ohio is not very burdensome to many people; the entire taxation for the general revenue fund is less than the taxes collected by either of our two largest cities — Cleveland and Cincinnati. The burdens of taxation are chiefly local and the responsibility is chiefly local. Men usually assume that the State Legislature is responsible for the whole burden of taxation. It is well to remember that the Legislature is responsible only for legislation that permits the people to vote taxes upon themselves, but the people do the voting and are therefore responsible for their own acts. Let me remind you that the total revenues collected in the state for state, county, municipal and local purposes amount to something over forty millions of dollars annually. The amount of the state taxes from all sources, subject to appropriation by the legislature, is a little less than five millions — that is about one dollar in eight. It should be noted that of the amount named above as state taxes, one mill, or about one and three-quarter millions, constitutes the common school fund, which is paid back to the local counties for education. If we deduct this amount there is but little over three million dollars held by the state for meeting the demands of the sinking fund, the general revenue fund and the University tax. As a matter of fact, scarcely one dollar in ten of the whole amount paid by the people in taxes ever comes under the direct jurisdiction of the state legislature.

This will appear more clearly when we remind you that as against the amounts named above for the year ending in November, 1898, the taxes for county purposes, including the items for the poor, bridges, buildings, roads, debts, et cetera, amounted to about nine and three-quarter millions, or more than double the state taxes. If we deduct the common school fund, which is really a state tax, for local use, the county taxes are three times the state taxes. These county taxes are all provided for by the legislature under the vote and control of the

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people through their county officers. If these counties get the worth of their money and secure an honest administration, there ought to be no reasonable ground of complaint. If they fail in this, the remedy is at home; there is no necessity of coming to the state legislature for relief, nor should the dissatisfaction caused by purely local conditions be transferred to state officials.

But let us take yet another view. For the same year the taxes for township expenses, including schools, school houses, city, town and village taxes, special purposes and miscellaneous purposes, amounted to nearly twenty-six millions of dollars. It is interesting to note that of this amount about one-tenth, or a little more than two and one-half million dollars, was for special and miscellaneous purposes. It is also worthy of note in passing that the taxes for the four public institutions for higher education — the Ohio State University, Ohio University, Mimai University and Wilberforce University, amounted to $244,567.88, and the township taxes for education amounted to $10,419,932.49. Add to these two items the state tax of $1,948,013.07 for the common schools and we have a total tax for education of $12,410,513.42. That amounts to a little more than a fourth of the total tax and a little less than a third. This amount of twenty-six millions of dollars is so directly and absolutely under the control of local committees that it forms an unanswerable argument for the supreme importance of local government.

Let us put our taxes in another form, that we may see the proportion between local and state taxation. The tax rate for the state is 2.84 mills; this includes: the sinking fund, three-tenths of a mill; general revenue, one and four-tenths of a mill; University fund for the four universities, fourteen hundredths mills; common school fund, one mill. A man who pays tax on five thousand dollars pays to the state fourteen dollars and twenty cents; of this five dollars goes to the common school fund, seven dollars to the general revenue, one dollar and fifty cents to the sinking fund and seventy cents to education.

Now the average rural township will have a tax rate not far from fifteen mills. A man in such a township paying on five thousand dollars would find his taxes to be seventy-five dollars. Of this amount fourteen dollars and twenty cents would be for state purposes; five dollars of it, to be sure, comes back to him for his common school, so that it may be said that nine dollars and twenty cents would be his state tax, including the tax for the support of the several Universities. This, to my mind, makes it clear that the state taxation is not a very serious burden, so far as it relates to our property.

May I inject into this paper a statement, since I am a college man, about our university expenses? You will notice that 2.84 mills is the state tax. Now .14 mill is for university purposes, including the four universities; .10 mill is for the State University, so that a man that pays taxes on five thousand dollars would pay in, as I say, fourteen dollars and twenty cents. He will pay fifty cents a year to the support of the state university, and he will pay twenty cents for the support of the other three. That twenty cents is divided between Wilberforce at Wilberforce, Maimi University at Oxford and the Ohio University at Athens.

If now any man is disposed to suggest that there is connected with our revenues a large amount or any amount of extravagance, dishonesty or criminality, I venture to say that a careful investigation of the facts would prove the troubles to be chiefly local. Indeed, I think we owe it to the state to say that it has made a pretty good account of the revenues raised by taxation for state purposes.

I might inject another word here and say that the amount of fraud, dishonesty, and all that, in our taxing system, that is, in the strictly state revenues, is almost nothing as compared with the amount of fraud that is found elsewhere.

When you remember what I said a moment ago, that the taxes for general revenue in the state of Ohio are less than the taxes for the city of Cleveland or the taxes for the city of Cincinnati, you can see how the city politician has more opportunity for fraud and dishonesty in connection with taxation than the state officials; and you see what is more than that, that these schemes are worked through the legislatures permitting people to do certain things; municipalities have in them larger opportunity for fraud, dishonesty and theft than is possible in those handling state's revenue, because out of the 40 mills there is less than five that the state has anything to do with whatever.

It may add now to our interest if we look a little further into what the state actually does with the revenues at the disposal of the legislature.

In the first place, the Ohio Penitentiary heads the list. The annual appropriation for this institution is about five hundred and fifty thousand dollars. This is in a measure offset by the earnings, which are carried into the state treasury; for the last year these amounted to nearly two hundred and twenty-six thousand dollars, but even deducting this amount the penitentiary remains the largest money consumer of any public institution in the state.

Next comes the Ohio Reformatory and then the state hospitals, located at Athens, Cleveland, Columbus, Dayton, Longview, Massillon, Toledo and elsewhere. Then we have the boys' industrial school and one for girls. The institutions for the blind, the deaf, the feeble-minded, the soldiers' and sailors' orphans and for epileptics, annually call for large sums of money. The appropriations for these institutions amount to a little more than three million dollars. The Board of Public Works expends a considerable sum each year. The legislature costs about one hundred and forty thousand dollars annually. The several state offices aggregate a considerable sum. There are several public enterprises that draw upon the general revenue fund for support. But it is worthy of emphasis here that the bulk of the taxes is spent directly upon our benevolent and charitable institutions. If we add to this the money that may be indirectly charged to this work we see at once that our greatest enterprises are for the poor, the unfortunate, the imperfect and the criminal. It is a case where we that are strong do bear the infirmities of them that are weak and the burden of them that are criminals. For every dollar that the state spends for the higher education of the sound, the healthy and the hopeful, we spend nearly, if not quite, ten dollars upon the unsound, the unhealthy and the hopeless; or if we put it in another comparison, the sum total of all the money spent from all sources on public education of all kinds is about fifty times what we spend upon our public institutions for the unfortunate and criminal classes. I do not know that any man begrudges the money spent upon the unfortunate classes. He may have some dissatisfaction concerning the money spent upon the criminal classes when he considers the causes that produce such criminals, but all must recognize the necessity and the wisdom of doing the right and generous thing in such cases. The growth of the humane spirit among us will not tolerate indifference or negligence. These are the accompaniments of civilization, as we know it. The state must do its full duty.

It is worth while to remark in passing that the unfortunate classes are increasing more rapidly than the criminal classes. Our greatest burdens in the future will probably arise from our care of these classes. A study into the causes of this opens up a sociological question into which I cannot enter, but I may remark that society must by some effective regulation of social conditions protect itself against the increase of the unfortunate and criminal or the burden will become so heavy as to be a serious menace to other classes. A study of our pub-

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lic expenditures inevitably leads one to inquire anxiously what can be done to improve conditions and remove causes.

We may now pass to the question of the source of revenues.

During all our history as a state there have been two chief sources of revenue — real estate and personal property or chattels. For convenience a three-fold division is made and the grand duplicate now shows the following items:

Real estate in cities and villages	$ 645,313,462 00
Real estate not in cities and villages	591,598,409 00
Chattel property	511,096,768 00
Total	$1,748,008,639 00

Now if you want to get that in mind you will find it not far out of the way to say:

City real estate	6
Country real estate	5
Personal property	5
Total	16

Now the total is 16, and you are not far from the just proportion of city real estate, country real estate and the personal property.

This duplicate increases a little from year to year during a decade, but the land appraisement is made once in ten years. It is noticeable that city and village real estate is the largest revenue producer. The evasion of the law in many cases where persons do not report their chattel property makes that source of revenue much less than it ought to be. If such property were honestly returned for taxation the grand duplicate would be much larger and the rate of taxation proportionately lower on real estate of all kinds.

It is to be remembered, therefore, in that connection that the failure to report personal property for taxation, or to have it reported, as the case may be, simply increases the burden of taxation that must come on either real estate on the one side or corporations and franchises on the other. That is to say, the moment that personal property gets out of bearing its just proportion of the taxation, it puts the burden upon some other form of property, and it must fall either upon the real estate or upon sources other than those named in these three lists. It is to be remembered always that a tax tends to depreciate the value of property. This fact makes the speculative element of society invest in forms of property that are sensitive and retiring in the presence of an assessor. Such property is apt to shrink in his presence, if indeed it appears at all. The operation of this species of fraud and dishonesty makes the burden upon tangible property relatively too great. There is no question more perplexing than the discovery of a method of taxation that will make all property bear its just proportion of the expense of civilization.

In this connection it is interesting to note the progress that has been made within the past decade in new sources of revenue.

The Nichols law was a step in a new direction, in that it taxed franchises. Under the Constitution the law is that all property shall be taxed according to its true value in money. The Constitution goes farther and names certain kinds of property, as moneys, credits, investments in bonds, stocks, et cetera. Under the new conditions of business that have arisen since the Constitution was adopted in 1851, the question of franchises came prominently before the

legislature. A law was enacted taxing such franchises. The holders of these franchises resisted payment and the validity of the law was tested in the courts. The courts took the eminently just position that a constitution being of the nature of a limitation, does not prohibit the legislature from exercising its power in spheres not designated in the charter of limitation. The Constitution does not grant the taxing power. It does, however, limit the use of the power as specified. This limitation can not be construed as a prohibition in cases outside of the subjects named. There was held to be a clear distinction between a franchise and property as designated in the Constitution. The importance of this decision lies in the fact that it opens the way for the legislature to proceed to levy a tax where there is ability to pay. It has brought a considerable increase in revenue. The Auditor of State reported one year ago an excise tax to the amount of $558,600. The superintendent of insurance reports fees to the amount of $131,303.98. In the future we shall find an increasing revenue from such sources.

Recently the Supreme Court has handed down a decision in the telephone cases holding that they are taxable upon a basis of their earning power. This case was brought by an action against the Auditor of Franklin County to test the question whether a telephone should be taxed at the cost or value of property found to be $3.42, or upon the earning power, which was $14 for each instrument. Let me say that the ordinary telephone that we have (it was proved in the case) the box, including the transmitter, and the receiver that we hold in our hand, costs $3.42 for each instrument. Now, these instruments were on an average earning $14 a year, that is, they were earning about four times what they cost. The question immediately arose whether they should be taxed on what they cost or on what they earned. Now, the plea was put up that you tax a horse for what it costs, or a piano for what it costs, or something else for what it costs, and not upon the amount of delight you may get out of it or what it earns. You tax a horse on his value, and this company felt that that telephone instrument should be taxed on what it cost. Well now, upon that the court held in favor of the earning power as a proper basis for taxation. Fourteen dollars is six per cent. upon about $233. The question was then whether this telephone instrument should be put in for taxation at $233 or whether it should be put in at $3.42, and the court held in favor of the higher value. (Applause.) It is to be noted that this decision falls in with the true theory of taxation held for so long. Property is taxed because it is potentially a revenue producer. All tax must eventually be paid out of income. We assess land for taxation with a distinct reference to its producing capacity. The whole question of justice or injustice in taxation between different kinds of property is always discussed with this principle in mind.

The courts of the state, therefore, have come to the defense, if you wish to put it that way, of the principle that the colleges have been teaching for one hundred years, that all revenue must come out of income, and that the income is the real measure of the tax that ought to be put upon anything. Now, upon this question we have differed for the reason that we have grown up under a system that makes it almost impossible to discover revenues or incomes, and because we cannot discover incomes we have found in it a species of double taxation. The question is whether it would not be well to reorganize upon that basis making the income, the earning power of the business to be eventually the thing to be taxed, and if that were tried then the land and the note would be brought upon an equitable basis.

If, now, the new conditions of modern business shall maintain enterprises with large earning capacity or an earning capacity quite out of proportion to the capital invested, as in the case of telephones, there is no good reason why

these enterprises so successful financially should not bear an equitable portion of the public burdens. The decision in the telephone cases will not only bring increased revenues from that source, but will make it easier in the future to reach new sources of revenues in other lines of business.

Here are some facts that are peddled on the streets of Columbus, and in giving them I will not be slandering anybody. The street railway company of Columbus today is said to have stock to the amount of $7,000,000.00, and interest-bearing bonds to the amount of $7,000,000.00, fourteen millions in the aggregate. The largest assessed valuation for taxation of the Columbus City Street Railway Company is this year exactly five hundred thousand dollars. I leave you to consider whether one dollar in twenty-eight of its stock and bonds, or one dollar in fourteen of its interest-bearing bonds, is to be regarded as an equitable adjustment of value. The telephone case will reach just such a case as that, and the courts will say to them that their earning capacity must be taken into consideration. All such organizations have left that out of consideration. But you discover now that all these years we have had the true value in money in land based on its earning capacity, and when the prices of agricultural products go seriously down the earning capacity goes down and its tax rate would be decreased, and if it went the other way its tax rate would be increased. This decision says that the earning capacity shall be taken into consideration in estimating it for taxation.

The most satisfactory feature of these newer forms of taxation is found in the fact that they secure the taxes from proper sources and from people able to pay. The public support through patronage these great enterprises; they become fruitful sources of wealth; there is no good reason why they should not bear a just proportion of the public expense. The holders of these franchises and the owners of our great corporations recognize the justice of the case and have responded more liberally than was anticipated.

In concluding this paper permit me to offer a few suggestions:

1. I can not urge too strongly the necessity of a close scrutiny of our taxes in the local unites. A township board will often spend more money than is justifiable. There is more waste and greater opportunity for corruption in local taxation than most men are aware of. Two-thirds of the total tax of the state is spent in the townships. It is to be kept in mind that the indebtedness for which we pay taxes is chiefly local. In Governor Bushnell's message to the present legislature he reported cash in the treasury of more than a millon dollars. This would pay the debt of the state. There is scarcely a township in the state that could show a balance sufficient to pay its debts. Indeed most local communties have built their improvements with bonds. Our school houses have been built on borrowed capital. If every community had to face the question of paying for its improvements as a citizen pays for his house, it would make fewer and less costly improvements. Indeed, the whole question of bonded indebtedness is not always clearly understood. Men vote for bonds without any appreciation of the fact that these same bonds are to be paid for by taxation; the result is that a great deal of dissatisfaction exists which is not well founded.

The objection should be brought against the vote that made the tax a necessity. But men say that bonds are a necessity; otherwise men would not support public improvements. I do not believe this is always true, although it may be true in particular cases. The truth is, that men ought to be brought face to face with the expenses they incur. The method of improvement by bonds tends to keep men's minds away from the main issue. By that fact more bonds are voted than a deliberate judgment would approve. Without the bonds improvements might come more slowly, but they would be more appreciated when they did

come. We have certainly gone to the extreme and the fact that many localities have reached the maximum rate provided for by law proves the necessity of a more careful scrutiny than has been our custom.

2. I offer a second suggestion in regard to supervision of the state's expenditures. As I have already said the state tax is not the great burden of taxation, nevertheless the state's revenues are considerable. There is here a tempting opportunity for lavish expenditure and a reckless use of the public funds. It is not so much the amount involved as the character of the expenditure that is important. The revenues of the state are probably sufficient without further increase for a reasonable support of needed institutions. There is every reason to believe that the revenues will increase from the new sources quite in proportion to the increase in demand for public purposes provided the proper care be taken in making appropriations. A wise expenditure of public revenues should provide for an economical use of the money; there is no valid argument for elaborateness in the use of money in our benevolent institutions. Some of them now are so expensively built as to be almost a scandal. A more conservative use of money and a better division for a period would break the force of the lobby where institutions vie with each other for the size of their appropriations. The only cure here lies in an enlightened and aggressive public sentiment that will insist that officers elected by the people shall make the public good their first duty. The legislature may here be held to a very strict account. The referendum is not now a part of our political machinery, but is sure to become so if disregard of the public becomes chronic.

3. A third suggestion lies in the improvement of the State Board of Equalization. I am informed that a bill will be presented to the present legislature looking to a reduction in the number of this board, so that there shall be one member from each congressional district. Whether this will cure any evils remains to be seen. The board as at present constituted is chiefly a guessing club authorized to exercise its gifts by state law and at the state's expense. The last board cost sixty thousand dollars. The value of its services has not been computed. It has authority with no particular responsibility and forms a fine opportunity for trading duplicates and making such other exchanges as may be desirable or profitable to the members. If we could ever get rid of the tax on land for state purpose and secure our revenues from other sources and by other means, the tax problem would be greatly simplified. We should hear no more of the competition between counties for low valuations, and of the misleading reports about the high and low tax rate. If the state would appoint a commission to investigate the question of adjusting taxation it appears to the writer that much might be accomplished in the direction of equalizing the burdens.

4. A fourth suggestion arises from a consideration of the personal property tax. Much has been written upon this question. The facts staring us in the face tell us that but a small proportion of the personal property is returned for taxation. In Massachusetts it is said that more than one thousand millions of personal property escape altogether. In New York it is estimated that two thousand five hundred millions escape. I have not seen any estimate in figures of the amount in Ohio that escapes; it is conservative to say that the amount is equal to the value of the real estate. This, if reported, would make possibly a large reduction in the tax rate. No plan has yet been devised to correct this evil. The simple truth is nobody likes to pay taxes; another truth is that no one wants to pay more than his share; he will, therefore, resort to any and every means to pay his relative share honestly regarding this as his just share. It is of little use to present the facts. Every one knows that with the increase of population and wealth, and especially of new forms of wealth it cannot be true that

cities or groups of population are steadily and regularly growing poorer as shown by the tax duplicate, and yet this is precisely the situation. The present system seems to have made it difficult for a moment to tell the truth. What a joy if it were difficult to tell a lie and easy to tell the truth.

5. Let me add one word about the tax rate for the state. It is now 2.84 mills. In 1886 it was 2.70. The fourteen hundredths have been added for higher education including the support of the Ohio State University, the Ohio University, Miami University and Wilberforce University.

If under the new appraisement the grand duplicate should show any substantial increase, and if our revenues from sources other than the duplicate increase as we have reason to hope, then there would seem to be good prospect that the tax rate for the general revenue might be reduced. But even in that event the relief from present burdens would be very light. Our greatest burdens are local and there only is much relief possible. It is of the highest importance for other than financial reasons that public sentiment be kept awake upon the question. Constant watchfulness is our only safeguard. But with all our eargerness for economy we should not forget that it is always better to spend wisely than to save unwisely. The state must do her duty, this requires money; she ought to have enough, but she need not have enough to corrupt her government.

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